



MEMORANDUM

TO: Health Commission of the City and County of San Francisco

FROM: Greg Wagner, Chief Operating Officer and Dr. Hillary Kunins, Director of Behavioral Health and Mental Health SF

THROUGH: Dr. Grant Colfax, Director of Health

DATE: October 28, 2022

SUBJECT: Update on Status of Baker Places Programs and Contracts

As you know, DPH contractor Baker Places (BP) has been struggling with financial and operational challenges. DPH has been working intensively with Baker Places (and its affiliated organization PRC) since 2021 to attempt to stabilize the organization. BP is one of DPH's important service providers, with approximately 200 clients served in behavioral health beds. At the November 1, 2022, meeting of the Health Commission Finance and Planning Committee meeting, staff will be present to discuss the background and current status of the organization and its programs.

On September 19, 2022, BP informed DPH that it intended to close several programs. Given the operational and financial instability at the organization, DPH has concluded that it is in the best interest of clients, the public, and BP for the City to find alternate care providers for several services currently provided by BP. DPH has requested that BP take no immediate action and work with the department on a transition period of at least six months to transfer services to other providers without disrupting client services. BP leadership agreed to a phased approach but notified DPH that it intended to shut down four programs in the next several months – Joe Healy, Acceptance Place, Ferguson Place, and Assisted Independent Living Program (AILP). These programs currently serve approximately 90 patients. The department is also engaging with BP and partner City agencies to develop pathways for affected BP staff to continue serving our clients and community.

DPH staff continue to work daily with the Board of Directors and Executive leaders of BP. Our top priority is maintaining services for clients and preserving treatment beds and other services.

The DPH Behavioral Health System of Care team is actively working with Baker/PRC to identify other providers for these programs. HealthRIGHT360 has agreed to take over the services currently provided at Joe Healy Detox and Acceptance Place. We will continue to identify and work with other providers for the transfer of additional services.

Background

The following is a timeline of events related to BP for the Commission's reference:

- In the fall of 2021, BP met with DPH and the City Controller's Office to highlight financial concerns affecting several of its programs. The immediately City began administering technical assistance, including hiring a financial consulting firm to assist BP in identifying the source of its challenges and potential solutions. In March 2022, BP informed DPH that iIn March, 2022, PRC/BP staff informed DPH about the BP Board's intention to close the Joe Healy program due to financial concerns. To avoid potential closure of this vital City service, DPH requested that PRC/BP provide an estimate of the financial shortfall for the Joe Healy program and was provided an estimate of \$795,939. DPH

asked the Controller's Office to accelerate its financial analysis of the Joe Healy program and responded within weeks with a plan to reallocate contract funding to cover the program's deficit. Between January and May of 2022, at PRC/BP's request DPH also converted PRC/BP contracts from fee-for-service to cost reimbursement, delayed repayment of the FY 2021-22 Initial Payment, reallocated contract budgets across programs, accelerated invoice timelines, and held multiple "deep-dive" meetings with the Controller's Office and PRC/BP on the financial data from the City-commissioned financial report.

- Until May, 2022, DPH was working under the understanding that by closing PRC/BP's stated deficit of \$795,939 for Joe Healy and taking the extensive administrative actions described above, that PRC/BP would have sufficient funding cash available through July, 2022 when the Initial Payment for the following year would become available. We believed these solutions were sufficient to provide time to achieve our shared goal of developing and implementing ongoing contract modifications and operational changes to improve PRC/BP's financial sustainability going forward. This was our understanding even as DPH brought contract documents for PRC/BP to the Health Commission and Board of Supervisors for approval.
- On May 12, 2022, PRC/BP informed DPH that they were concerned about available cash to meet that week's payroll. At that time, although DPH was certainly aware of the organization's financial stress, these were the first escalations to DPH we were not aware that the organization may not have sufficient cash to meet payroll obligations through the remainder of the fiscal year, despite the actions already taken to close the previously stated shortfall. DPH immediately made further efforts to accelerate submission, payment and processing of all PRC/BP invoices.
- On May 24, 2022, DPH and PRC/BP leadership met again to discuss the organization's cash flow issues. At that meeting it became clear PRC/BP would be unable to meet payroll during the coming two months. DPH and the Controller's Office had exhausted all administrative options legally available to support PRC/BP and did not have any options available to unilaterally solve the organization's stated cash shortfall and had no authority to grant PRC/BP with a large amount of cash in a matter of weeks. At that meeting we determined that the best available option was to request an emergency grant from the Board of Supervisors to carry PRC/BP through the end of the fiscal year and the early portion of July, and to close the gap between revenue and operating expense until we could complete the process of modifying the contract financial model. It was our understanding that the PRC/BP staff present understood both the reasoning for and the implications of taking an emergency grant authorization to the Board of Supervisors and supported this course of action.
- On May 26, 2022, DPH met with the Controller's Office and City Attorney to propose an emergency grant agreement and emphasized that it would need to happen immediately to prevent layoffs and program closures. The department immediately drafted and introduced the legislation and requested that the Board of Supervisors waive its normal procedural timelines to allow the legislation to move in time to prevent service disruption. In June, the Board of Supervisors approved a \$1.2 million emergency grant to BP and required the City to work with the agency to develop a financial sustainability plan.
- In September 2022 there was again an abrupt change in BP's characterization of its financial position, with the agency indicating it again feared it had insufficient cash to meet payroll. On September 19, Baker/PRC informed DPH that leadership was considering discontinuing operations of several programs operated under contract with DPH. DPH immediately requested that Baker/PRC not to close or reduce services for a period of six months to allow DPH to execute a transition plan that will ensure continuity of services to our clients.

Technical and Financial Support Provided

Over the past year, DPH has been working with the City Controller's Office, MOHCD and other City departments to provide technical and financial support to BP and PRC, its affiliated organization. The City has provided the following support to BP and PRC:

- Moved all Baker contracts from fee-for-service to cost reimbursement, allowing Baker to recover its costs even when contracted units of service are not delivered
- Postponed Baker's repayment of audit settlements totaling \$1.4 million from FY 15-16.
- Postponed recovery of \$1.9 million of the Initial Payment ("advance payment") made to Baker in FY 21-22.
- With the support of the Mayor and Board of Supervisors, secured a \$1.2 million emergency grant in the summer of 2022.
- At Baker/PRC's request, authorized an additional \$1.2 million in administrative expenses to be converted to direct expenses, making them eligible for immediate invoicing.
- Authorized an increase in the allowable indirect cost rate from 15% to 22% for any programs included in the proposed transition plan to allow continuity of services.
- Offered to negotiate the timing and method of repayment of the \$4.1 million Initial Payment ("advance payment") made in August 2022.
- Worked with Baker/PRC staff on a plan to submit estimated invoices based on prior month invoicing to accelerate invoice submission and payment.
- Offered accounting and finance staffing support through an MOHCD capacity building grant.
- Provided a financial consulting firm, at the City's expense, to analyze financial data and assist in development of a financial sustainability plan for Baker/PRC.
- Offered additional technical support resources from the Controller's Office to support Baker/PRC.

Next Steps

Finance, Business Office and BH System of Care staff will be present at the 11/1 Finance and Planning Committee meeting. Staff will continue to inform the Commission over the coming weeks on its work to identify alternative service providers and on other issues as needed.